FEDERAL EXECUTIVE INSTITUTE ALUMNI ASSOCIATION

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TESTIMONY OF

MICHAEL D. SERLIN, PRESIDENT
FEDERAL EXECUTIVE INSTITUTE ALUMNI ASSOCIATION

HOUSE OF REPRESENTATIVES
COMMITTEE ON POST OFFICE AND CIVIL SERVICE

HEARINGS ON DEVELOPMENT
OF A NEW FEDERAL RETIREMENT SYSTEM

APRIL 30, 1985

I appreciate the Committee's interest in the views of the Federal Executive Institute Alumni Association on the design of a new retirement system. In addition to my statement I would like to include for the record a copy of our January, 1985 special newsletter, which summarizes the results from a poll of our 1800 members, the majority of whom are currently Federally employed executives. This is the fifth year we have sought our membership's views on various issues affecting the functioning of the Federal Government. My testimony will be concentrated in the area of Section D of our questionnaire responses, representing our views on the Federal retirement system. Particular emphasis will be on concerns for the new system, to assure that the Federal Government can compete in the hiring marketplace for the most competent and motivated workers and provide enough stability that it does not lose its investment in the training and experience of those workers.

In response to our members' interest, we developed seven principles which we believe any legislation on Federal retirement for current or future employees should meet. These principles are intended to insure parity with other large employers of professional workers in the private sector. Most successful private companies encourage careers in the company rather than wide fluctuations in employment and turnover. The principles are:

1. Changes in the current retirement system should apply only to those who are not yet vested; the vested employee reasonably assumes that the current (or an equivalent) pension fund system will exist upon retirement. Employees cannot make rational decisions about their careers if the rules are subject to frequent change.
2. Any Federal retirement system should provide benefits comparable to retirement systems in the private sector. Comparison with private sector retirement plans should consider pensions, Social Security and capital accumulation provisions.
3. If a retirement system for new Federal employees is built around Social Security, it should also include a supplemental annuity similar to a private pension system, and a capital accumulation plan (401(k)). Any new system should be self-funding. The supplemental annuity should be actuarially based and both employer/employee contributions allowed to gain from investments. Early withdrawal of the employees' share should include interest.
4. Federal retirement COLA's should not be adjusted unless all COLA's are similarly adjusted. Any adjustments should not exceed the proportion which Federal retirement costs bear to total budgetary outlays.

5. For retirees under the new system cost of living adjustments should be built in.
6. Employees in the existing Civil Service Retirement System should be allowed to participate in a capital accumulation plan (401(k)).
7. A retirement system for new Federal employees should permit voluntary participation by those in the existing system by providing incentives for full or partial conversion to the new system.

I would now like to turn to the specific questions regarding issues that this Committee wished to be addressed in considering legislation establishing a retirement system for newly hired Federal employees.

I would like to reiterate that our objective is to retain an effective Federal career force through pay and benefit programs equal (not better, not worse) to large private companies. Committee issues will be responded to on the basis of equity and comparability with large private sector retirement systems.

In considering an appropriate cost level, we will not recommend a number, but propose the appropriate equivalent to large private sector employers' percent of payroll, adjusted by tax benefits to the employer to measure true cost.

This last point is critical. Any percent of payroll comparison must reflect the true cost to the private sector employer after adjustment for tax benefits to that employer for employee pension programs, rather than a simple percentage comparison on the gross unadjusted numbers. As the Congressional Research Service study has pointed out, a significant number of private sector plans would be found to be more generous than the current Civil Service Retirement System as a percent of total payroll if the tax benefit adjustments were taken into account. The Congressional Research Service study uses the same economic and demographic assumptions as the social security trustees. We consider this appropriate because (1) it is using a consistent yardstick for measuring future costs, and (2) social security will be a significant component in the new system.

Regarding compensating for the Social Security tilt, we suggest setting up an integrated plan at the level of average large private sector employers. Since the reports compiled by GAO define large companies in some cases with as few as 1000 employees, and the plan for Civil Service will eventually cover more than two million, we think the average for large companies should be the floor in considering comparability.

With regard to employee contributions, we think there should be none required beyond normal social security withholding, as with the large majority of private sector plans.

The system should be fully-funded out of current appropriations. We recommend agency appropriations to focus understanding of total workforce costs at the operating management level.

Regarding vesting, we feel that the current five years balances stability of the workforce while permitting outward mobility to withdraw funds without interest. If a new system with five year vesting permitted immediate withdrawal of funds with earned interest it would be comparable. Shorter vesting with accompanying turnover would increase Government cost.

In the treatment of unique employment categories, (such as Air Traffic Controllers scheduled for earlier retirement) any special arrangements should be clear and openly identified based on the same economic and demographic assumptions, chargeable to the agency, and not hidden in unique formulas.

Thank you again for the invitation to address the Committee. I will be happy to answer questions.

FEDERAL EXECUTIVE INSTITUTE ALUMNI ASSOCIATION

FEIAA NEWSLETTER

QUESTIONNAIRE RESULTS — SPECIAL EDITION
January 1985 — No. 67

As promised, this Special Edition of the FEIAA Newsletter is devoted *solely* to the results of the Questionnaire survey mailed to the FEIAA membership in October 1984. *Excluded* from that mailing were those FEIAA members who are employed by State, local, and foreign governments, since all questions posed pertained to Federal employee concerns. Also *excluded* were questionnaires received *after* the December cut-off date, which had to be *scrupulously observed* in order to have these results *available* when Congress reconvened. Even so, some 1,100 members (1,079 to be exact) returned completed questionnaires in time to be tabulated. This represents an excellent *60 percent return* from the 1,800 members included in the survey.

Copies of this Special Edition will be sent to Administration officials, all 535 Members of Congress, staffs of relevant congressional committees, and the GAO. Copies will also be distributed to the media and other organizations similarly involved in public service matters. Considering the *"political agenda"* facing the 99th Congress as its first session gets underway, this most current FEIAA survey is *especially timely* in terms of the very *issues* that appear to be headed for Congressional and Administration consideration.

That this FEIAA survey has been computerized, posted, tabulated, statistically analyzed and evaluated in only five weeks since the December cut-off date is due to the *extraordinary efforts and dedication put forth by John Weber and Marie Eldridge.*

SUMMARY RESULTS

Section A. General Background*

1. *Current Status:*

a. Currently employed by Fed. Govt.	904
b. Retired from Fed. Govt.	162
c. Resigned From Fed. Govt.	13

2. *Age at retirement or resignation:*

a. Under 50	17
b. 50-54	28
c. 55-59	92
d. 60 +	37

3. *Main reasons for retiring or resignation:*

a. Reached retirement eligibility	69
b. Pay capped or too low	64
c. Retirement COLA's preferred	16
d. Better job offer	27
e. Health	9
f. Position abolished	17
g. Frustration	58
h. Pursuit of other interests	27

4. *Current or last level employment:*

a. SES	521
b. GS/GM 15	443
c. GS 16-18	70
d. Other	36

5. *As member of the SES:*

a. Generalist	344
b. Tech. Specialist	183

6. *Completed SES Candidate Dev. Program:*

a. Yes	145
b. No	846

7. *Actively seeking SES position:*

a. Yes	217
b. No	784

8. *Sufficient opportunities for SES mobility between federal agencies:*

a. Yes	166
b. No	743

9. *Current age:*

a. Under 35	3
b. 35-44	213
c. 45-54	510
d. 55-60	226
e. 61 +	125

10. *Gender:*

a. Female	97
b. Male	976

11. *Years federal service:*

a. Less than 10	46
b. 10-15	121
c. 16-24	337
d. 25-34	460
e. 35-40	85
f. 40 +	26

**The above data are in absolutes and represent the actual count as indicated by responders. For this reason, totals may not add to the 1,079 questionnaires returned*

Section B. Federal Executive Institute (FEI)*

1. *Returned to FEI for additional training:*

a. Yes	369
b. No	703

2. *Attended Executive Dev. Days sessions in:*

a. Wash., DC	477
b. Region	60

3. *Sends subordinates to FEI:*

a. Routinely	220
b. Occasionally	294
c. Never	366

4. *Favor elimination of 3 and 7 week classes:*

a. Agree	460
b. Disagree	386
c. No opinion	202

**The above data are in absolutes and represent the actual count as indicated by responders. For this reason, totals may not add to the 1,079 questionnaires returned.*

Section C. Issues

	Percent		
	Yes	No	N/A*
1. Would return to General Schedule:	35.59%	29.19%	35.22%
2. SES bonus awards were made in fair manner:	23.73%	50.23%	26.04%
3. Satisfied with performance appraisal & review:	38.00%	47.91%	14.09%
4. SES Review Boards elected by career SES members:	49.86%	26.41%	23.73%
5. Management incentives worth cost of administration:	10.38%	78.41%	11.21%

continued on back

	Percent Yes	No	N/A*
6. SES candidate dev. program working effectively:	20.57%	55.70%	23.73%
7. Mgt. effectiveness fostered by career/political relationship:	20.76%	57.65%	21.59%
8. New political appointees received sufficient orientation:	16.59%	49.77%	33.64%
9. Fed/private health benefits compare favorably:	7.23%	80.35%	12.42%
10. Encourage young people to consider Fed. career:	41.80%	52.27%	5.93%
11. Merit pay appraisal based upon:			
A. True merit:	26.60%	55.89%	17.52%
B. Responses to dept. policy:	53.57%	23.54%	22.89%

12. *On the FEI scale of 1 (low) to 7 (high), how do you rate morale in your agency?*

Scales	1	2	3	4	5	6	7	Total	Average
FY1983	31	128	218	298	216	88	10	989	3.8
FY1984	55	166	235	229	190	96	11	982	3.6

13. *On the FEI scale of 1 (low) to 7 (high), how do you rate your future in federal service?*

Scale	1	2	3	4	5	6	7	Total	Average
	46	99	107	260	185	150	48	895	4.2

14. *What stand should FEIAA take on the following:*	Endorse	Percent Oppose	Monitor	N/A*
A. Exclusion from personal liability:	80%	6%	11%	3%
B. Elimination of SES bonus system:	31%	38%	25%	6%
C. Elimination of SES Candidate Program:	24%	42%	28%	7%
D. Elimination of personnel ceilings:	50%	22%	23%	5%
E. Biannual rather than annual budgets:	66%	19%	11%	4%
F. Separate service for non-career execs:	51%	19%	22%	9%

*Not answered by those returning questionnaire.

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Section D. Federal Retirement System

	Incorporate In New System			Incorporate/Maintain In Existing System		
	Favor	Percent Oppose	N/A*	Favor	Percent Oppose	N/A*
1. Retire 55/30 with 56% annuity:	57%	27%	16%	80%	10%	10%
2. Voluntary retirement only at 60:	32%	52%	16%	15%	70%	15%
3. Retire 55, reduction 2% or less per yr under 60:	41%	48%	19%	33%	50%	17%
4. Investment plans to supplement pensions:	79%	9%	12%	75%	12%	13%
5. High 5 yr average for retirement computation:	36%	50%	14%	18%	70%	13%
6. COLAs equal to 75% increase consumer price index:	29%	57%	14%	24%	63%	12%
7. Option to join new retirement system:	67%	12%	21%	66%	17%	16%
8. Lower COLAs for retirees under 62:	17%	70%	14%	13%	75%	12%
9. Increase employee contributions:	24%	61%	15%	18%	68%	13%

*Not answered by those returning questionnaire.